SaskTel

Financial Statements of

DIRECTWEST PUBLISHING PARTNERSHIP

December 31, 2004

105-04305/

President's Message

DirectWest Publishing Partnership ("DirectWest") operates as a wholly owned business unit of Saskatchewan Telecommunications Holding Corporation (SaskTel). With a head office in Regina and a branch office in Saskatoon, the company has 110 employees in Saskatchewan.

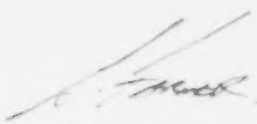
DirectWest's focus is to be the leader in bringing buyers and sellers together through both print and online advertising mediums. DirectWest publishes and distributes the ten SaskTel phone books within the cities and districts across Saskatchewan, as well as having all directories online at www.mysask.com. DirectWest also provides customers with Internet Business Solutions including web site development, online advertising, email marketing and e-commerce solutions. Through the Agricultural Services Division, DirectWest has diversified its product and customer base to extend advertising services specifically targeted to Agricultural customers across Canada.

Operating results in 2004 were very strong. Despite increased competition in all business lines, revenue increased by 3.2% to exceed $35.8 million. With operating costs managed to a 1.2% increase, net income reached a new high at $2.4 million.

The competitive environment continued to change at a rapid pace. During the year two new directory competitors entered the Saskatchewan market and two withdrew. Despite increased competitive activity DirectWest was able to maintain its directory market share at 93%. All directory quality and customer performance measurements met or exceeded targets. Internet traffic continued to grow and the www.mysask.com internet portal continued to set usage records.

Agriculture markets remained challenging during 2004, with the continuing BSE crisis, reduced export prices due to the rise in the Canadian dollar, and frost damage to crops across much of the prairies. As a result DirectWest revised the market expansion strategy and focused on cost reductions, thereby improving operational results.

Looking forward, competition will continue to evolve rapidly. Today's Saskatchewan directory business is relatively mature, but DirectWest nevertheless expects to achieve modest growth in this area and maintain the company's leadership position. Technology will play an increasing role, both in providing growth opportunities for DirectWest, and in creating additional types of competition. DirectWest's internet business solutions will continue to innovate and generate growth. The company will continue to seek expanded markets and additional sources of revenue. Overall, in 2005 DirectWest expects to generate moderate revenue growth and continued profitability.



Gord Farmer
President, DirectWest

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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the statement of financial position of DirectWest Publishing Partnership as at December 31, 2004 and the statements of operations, partner's equity and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 7, 2005

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

Statement of Operations

For the year ended December 31. (Thousands of dollars)	2004	2003
Gross revenue	$35,853	$34,747
Cost of sales	8,066	8,520
Gross profit	27,787	26,227
Operating expenses	25,367	24,510
Income from operations	2,420	1,717
Net interest income	28	60
Net income	$2,448	$1,777

See accompanying notes

Statement of Partners' Equity

For the year ended December 31. (Thousands of dollars)	2004	2003
Balance, beginning of year	$8,057	$9,179
Net income	2,448	1,777
	10,505	10,956
Withdrawals	(2,203)	(2,899)
Balance, end of year	$8,302	$8,057

See accompanying notes

Statement of Financial Position

As at December 31, (Thousands of dollars)	2004	2003
Assets		
Current assets		
Short-term investments (Note 3)	$3,849	$1,095
Accounts receivable	2,168	3,384
Inventory	56	103
Prepaid publishing costs	5,214	5,377
Prepaid expenses	29	53
	11,316	10,012
Property, plant and equipment (Note 4)	1,661	2,339
Goodwill	232	232
	$13,209	$12,583
Liabilities and Partners' Equity		
Current liabilities		
Bank indebtedness	$392	$393
Accounts payable	1,392	1,265
Partners' withdrawals payable	495	370
Deferred revenue	2,628	2,498
	4,907	4,526
Partners' equity	8,302	8,057
	$13,209	$12,583

See accompanying notes

On behalf of the Partners:

Robert Watson
3364381 Canada Ltd.

Randy Stephanson
3339807 Canada Ltd.

Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2004	2003
Cash provided by (used in):		
Operating activities		
Net income	**$2,448**	$1,777
Items not affecting cash (Note 5)	**876**	948
Net change in non-cash working capital items (Note 6)	**1,707**	392
	5,031	3,117
Investing activities		
Property, plant and equipment expenditures	**(197)**	(397)
Financing activities		
Partners' withdrawals	**(2,079)**	(2,853)
Increase (decrease) in cash during the year	**2,755**	(133)
Cash and cash equivalents, beginning of year	**702**	835
Cash and cash equivalents, end of year	**$3,457**	$702
Comprised of:		
Short-term investments	**$3,849**	$1,095
Bank indebtedness	**(392)**	(393)
	$3,457	$702

See accompanying notes

Notes To Financial Statements

Note 1 – Organization

DirectWest Publishing Partnership (the Partnership) markets and supplies print and internet advertising, marketing and business solutions for Saskatchewan and agricultural businesses. The Partnership's main product lines include the Saskatchewan Telecommunications (SaskTel) telephone directories, on-line directories at SaskTel's internet portal, mysask.com, and agricultural publications.

As the Partnership is unincorporated, no provision has been made in the accounts for partners' income taxes. These statements are of the Partnership only and do not include any other assets, liabilities, revenues or expenses of the partners.

The Partnership is wholly owned by Saskatchewan Telecommunications Holding Corporation (Holdco) and the financial results are included in the consolidated financial statements of Holdco.

Note 2 – Significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Short-term investments

Short-term investments represent interest bearing investments with Holdco that are due on demand and are stated at cost which approximates market value.

Prepaid publishing costs

The Partnership defers expenses that are directly related to its publications, including printing and distribution costs, direct production salaries and salaries of sales staff. These costs are charged to income over the life of the related publication. Indirect costs are expensed as incurred.

Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets.

Asset	Estimated useful life
Office furniture, equipment and leaseholds	2-10 years

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Partnership's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two

Notes To Financial Statements

Note 2 – Significant accounting policies, continued

steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of earnings before extraordinary items and discontinued operations.

Revenue recognition

Revenues are earned through the sale of print and electronic telephone directory advertising, on-line advertising and advertising in agricultural publications. Advertising revenues are generally recognized, in accordance with the contractual terms with advertisers, on a monthly basis over the life of the print directory or electronic directory advertising commencing with the delivery or display date, respectively. Amounts billed up front for directories are deferred and recognized over the corresponding life.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, goodwill, and the recoverability of prepaid publishing costs. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 3 – Short-term investments

The balance represents funds invested with Holdco at an average interest rate of 2.26% (2003 – 2.34%).

Notes To Financial Statements

Note 4 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2004	2003
			(Thousands of dollars)	
Office furniture, equipment and leaseholds	**$7,520**	**$5,859**	**$1,661**	$2,339

Depreciation and amortization expense is included in the statement of operations as follows:

	2004	2003
	(Thousands of dollars)	
Cost of sales	**$404**	$404
Operating expenses	**472**	540
	$876	$944

Note 5 – Items not affecting cash

	2004	2003
	(Thousands of dollars)	
Depreciation and amortization	**$876**	$944
Other	**-**	4
	$876	$948

Note 6 – Net change in non-cash working capital items

	2004	2003
	(Thousands of dollars)	
Accounts receivable	**$1,216**	$666
Inventory	**47**	13
Prepaid publishing costs	**163**	65
Prepaid expenses	**24**	(19)
Accounts payable	**127**	(354)
Deferred revenue	**130**	21
	$1,707	$392

Notes To Financial Statements

Note 7 – Financial instruments

Credit risk

Pursuant to an agreement, the Partnership mitigates its credit risk by selling its receivables to SaskTel for a fee.

Fair value

The carrying amounts of short-term investments, accounts receivable, bank indebtedness, accounts payable and partners' withdrawals payable approximate fair value due to the short-term nature of these financial instruments.

Note 8 – Related party transactions

Included in these financial statements are transactions with Holdco and its subsidiaries, various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2004	2003
	(Thousands of dollars)	
Sales	**$1,925**	$1,944
Purchases of goods and services	**14,952**	14,093
Accounts receivable	**1,838**	3,032
Accounts payable	**30**	108

In addition, the Partnership pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.

Notes To Financial Statements

Note 9 – Commitments and contingencies

The Partnership is committed to operating leases for office premises in each of the next five years as follows:

	(Thousands of dollars)
2005	$181
2006	177
2007	106
2008	-
2009	-

In addition, the Partnership has contracted to purchase approximately $1.1 million of newsprint for 2005.

In the normal course of operations, the Partnership may become involved in various claims and litigation. While the final outcome with respect to claims and litigation cannot be predicted with certainty, it is the opinion of management that any resolution would not have a material adverse effect on the Partnership's financial position or results of operations.